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TREASURY FOR SECRETARY HENRY PAULSON FROM AMBASSADOR ERIC
BOST, TREASURY FOR MATTHEW LANGSTON, MATT EVERSON, DAN
PETERS AND TRINA RAND

E.O. 12958: N/A

TAGS: [ECON](#) [PREL](#) [PGOV](#) [SF](#)

SUBJECT: SCENESETTER FOR SECRETARY PAULSON'S VISIT TO SOUTH
AFRICA

¶1. (SBU) Secretary, I warmly welcome your upcoming visit to South Africa. My staff and I stand ready to do everything we can to make your trip a success. You are visiting South Africa at a particularly interesting time, only weeks before the African National Congress (ANC) elects its new leadership. Because the ANC has overwhelming support in the country (70 percent in the last election), the person who wins the ANC election in December will likely become the next president. If President Mbeki wins, although constitutionally barred from a third term, he will be in a position to strongly influence the choice of the next president of the country. I look forward to discussing the evolving political situation with you, as well as the other key elements of the U.S.-South Africa relationship. I know our staffs are in touch on the details of your visit, but please feel free to contact me directly if you have questions or special requests.

¶2. (SBU) South Africa is an anchor country in U.S. Africa policy. Since the end of apartheid in 1994, the ANC-led South African Government (SAG) has made major progress toward establishing a vibrant democracy and market-based economy. The SAG has focused on political and economic transformation: closing the gap between the historically privileged and disadvantaged communities -- primarily through government-provided housing, electricity, and water to the poor -- and creating employment and business opportunities. South Africa, however, continues to face daunting challenges, including skills shortages in all sectors of the economy, growing infrastructure bottlenecks, income inequality between haves and have-nots, massive unemployment, entrenched poverty in both rural and urban areas, violent crime, and a severe HIV/AIDS pandemic. These problems are intensifying political tensions within the ANC-led ruling coalition. The next ANC president will be selected at the party's December 16-20, 2007 national conference. While the likely victor is still unclear, current SAG President Thabo Mbeki and ANC Deputy President Jacob Zuma are the leading candidates.

¶3. (SBU) Despite its challenges, South Africa remains the continent's best prospect for establishing a successful democratic society with widespread prosperity. South Africa plays a key role in promoting peace and stability in Africa, and is an important voice on global trade and nonproliferation issues. U.S.-South African relations are stable, as reflected by President Bush's July 2003 visit to South Africa and President Mbeki's June 2005 and December 2006 trips to Washington. We share objectives on the African continent and work together closely on many of them.

POLITICAL OVERVIEW

¶4. (SBU) The African National Congress (ANC) dominates the political scene in South Africa. President Thabo Mbeki began his current five-year term on April 27, 2004. The ANC won 70 percent of the vote, and 279 of 400 seats in the National Assembly at the April 14, 2004 poll. A subsequent "floor crossing" period in September 2005, in which parliamentarians were allowed to switch parties, boosted the ANC's total to ¶293. The ANC also won 66 percent of the vote nationally in March 2006 local elections. The Democratic Alliance (DA) is QMarch 2006 local elections. The Democratic Alliance (DA) is the largest of several opposition parties in parliament, with 47 seats. The ANC leads the administrations in all nine of South Africa's provinces and in the vast majority of its municipalities. The most visible exception to this country-wide ANC domination is the DA's control of the Cape Town municipality where there have been multiple attempts to unseat the DA-led, multi-party municipal government.

¶5. (SBU) The ANC is part of a tripartite alliance whose other members are the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). The ANC-led alliance has developed schisms in recent years, largely based on the SACP's and COSATU's more populist styles, as well as opposition to the government's more business-friendly economic policies. However, the alliance is likely to hold together, at least in the short term. Despite their dissatisfaction with many ANC policies, most SACP and COSATU leaders remain intensely loyal to the ruling party and prefer to lobby for change from within. Splitting from the alliance and fielding candidates independently could have catastrophic electoral results for SACP and COSATU.

PRETORIA 00003903 002 OF 005

¶6. (SBU) Mbeki had a 77 percent public approval rating in January 2006, but his popularity within the party is lower. Mbeki is currently embroiled in managing internal party tensions related to succession and his centralized decision-making style. Supporters of Jacob Zuma accuse Mbeki of conspiring against his party deputy; using charges of rape (on which Zuma was acquitted in May 2006) and corruption (state prosecutors continue to investigate Zuma) to ensure Zuma does not become the next ANC president. Many within the party's grassroots also think Mbeki does not consult with ANC structures before making decisions, such as when he overrode the selection of several hundred local candidates by ANC branches to ensure gender parity on party lists for the March 2006 local elections. Mbeki's legacy will depend in large part on who is elected ANC President at the December party conference. Mbeki, who is also the current party president, has not formally declared his candidacy, but is widely expected to run. If he wins, he will remain safely at the helm until his state presidential term expires in 2009. If he loses, he faces lame-duck status.

FOREIGN POLICY - FOCUS ON PROMOTING AFRICA

¶7. (U) South Africa has taken a high-profile role in promoting Africa's development. South Africa served as the first chair of the African Union until July 2003 and helped establish continental institutions such as the Pan-African Parliament (which sits in South Africa) and the AU Peace and Security Council. President Mbeki is the driving force behind the New Partnership for Africa's Development (NEPAD), an African-developed program to strengthen economic and political governance across the continent and a framework for productive partnership with the international community.

¶8. (SBU) South Africa recognizes that, by virtue of its regional political, economic, and military clout, it has a

responsibility to participate in conflict resolution and peace support operations. South Africa played a leading role in negotiations that ended the conflicts in Burundi and the Democratic Republic of Congo. Approximately 3,000 personnel are deployed in UN, African Union and bilateral peace support operations in Sudan, Burundi, DRC, Ethiopia/Eritrea, and Comoros. While the U.S. has a strong policy interest in seeing South Africa expand and enhance its peace support capabilities, our ability to support these efforts has been limited by the suspension of FMF military assistance because of the lack of an Article 98 agreement with South Africa. South Africa participates in the African Contingency Operations Training and Assistance program (ACOTA) to enhance the capacity of the South African National Defense Force (SANDF) for participation in multilateral peace support operations.

¶9. (SBU) Zimbabwe remains a continuing challenge and increasing concern for President Mbeki. In March, regional SADC leaders appointed Mbeki as official mediator between Zimbabwean President Robert Mugabe and the opposition Movement for Democratic Change (MDC). Negotiations are ongoing, but human rights abuses against the opposition continue. While South Africa wants political and economic reform in Zimbabwe, SAG officials argue that additional pressure, such as imposing sanctions, would have little effect on President Mugabe and could destabilize Zimbabwe with spillover effects in South Africa. South Africa already hosts between 1 and 2 million Zimbabwean refugees.

¶10. (SBU) Overall U.S.-South African relations are positive, but South Africa sometimes takes positions on global issues that run counter to U.S. interests. As a non-permanent UN Security Council member, and former chair of the G-77 and the Non-Aligned Movement (NAM), South Africa has taken up the cause of a greater "South" voice in international institutions, increased development assistance, an expanded UN Security Council, and lower trade barriers (for manufactured and agricultural exports to developed countries).

THE ECONOMY AND THE STRUGGLE TO TRANSFORM

¶11. (SBU) As the dominant and most developed economy in

PRETORIA 00003903 003 OF 005

sub-Saharan Africa, South Africa is markedly different from other countries of the region. It is a middle income, emerging market economy with GNI per capita of \$5,209 (2006), akin to Chile, Malaysia, or Thailand. The South African government's fiscal and monetary policies are excellent. The ANC government steadily reduced the fiscal deficit from nearly 6 percent of GDP in 1994-95 to a small surplus (0.3 percent of GDP) in 2006-07. The South African Reserve Bank (SARB) is independent and committed to CPIX inflation (CPI minus mortgage cost) within a target band of 3.0 to 6.0 percent. Inflation fell from 12.4 percent at the beginning of 2003 to 4.8 percent in June 2006, but has recently crept back up to 6.7 percent (September 2007). Real GDP growth in 2006 fell slightly to 5.0 percent from 5.1 percent in 2005. The South African Department of Finance expects growth to slow to 4.9 percent in 2007 and 4.5 percent in 2008.

¶12. (SBU) South Africa's single greatest economic challenge is to accelerate growth. GDP growth averaged 3.0 percent per year between 1994 and 2004, and was not sufficient to address widespread unemployment and reduce poverty. The official unemployment rate, currently 25.5 percent, has only recently begun to decline, and is significantly higher among black South Africans than among whites. Income inequality between haves and have-nots remains high. Poverty is widespread. Fifty-six percent of black South Africans, but only four percent of whites, live in poverty. Nevertheless, the government has made strides in the areas of transfer payments

and public services to close the gap. Nearly 1.9 million low-cost homes have been built to provide shelter to 7.6 million people, 3.5 million homes have been provided with electricity, and nine million people have been connected to clean water. Eleven million people were benefiting from social grants in 2006 (compared to the country's five million individual taxpayers). The government's broad-based Black Economic Empowerment (BEE) program provides ownership and employment opportunities to blacks and has helped the black middle class double to an estimated two million since 1994. The black middle class now exceeds the size of the white middle class and is driving consumer demand.

¶13. (U) The success in preparing for and carrying off the 2010 Soccer World Cup to be held in South Africa is regarded by many as a bellwether of the country's commitment to continued progress in a variety of social and economic areas, among these being the fight against crime, expanding and improving infrastructure, providing services, and developing tourism.

U.S. SUPPORT FOR SOUTH AFRICA

¶14. (U) Since 1994, the United States Government has contributed approximately \$1.217 billion toward South Africa's development, plus \$201 million in credit guarantees.

Currently, our development assistance program focuses on HIV/AIDS and strengthening the healthcare system, addressing unemployment through job-skills training and education, creating models for efficient service delivery, and reducing gender-based violence as part of the President's Women's Justice and Empowerment Initiative (WJEI). A wide range of U.S. private foundations and NGOs are also at work in South Africa. Among them are the Gates Foundation (HIV/AIDS), the Ford Foundation (higher education), and the Rockefeller Foundation (adult education).

¶15. (U) Twenty-eight U.S. government entities are represented at our Mission in South Africa (Embassy Pretoria and the three Consulates in Cape Town, Durban, and Johannesburg). The Mission has 281 U.S. employees, and 564 local employees. More than 40 percent of Mission staff provide regional services to other U.S. embassies in Africa. The Mission has embarked on an ambitious program to build safe office facilities. In FY 2005, we completed the new Consulate compound in Cape Town, and in FY 2006 broke ground on a new Consulate building in Johannesburg. In FY 2009, we intend to break ground on a new 155-desk office annex in Pretoria.

U.S.-S.A. TRADE AND INVESTMENT

¶16. (SBU) U.S.-South Africa trade grew 23 percent in 2006,

PRETORIA 00003903 004 OF 005

totaling \$11.7 billion. U.S. exports were up 16 percent at \$4.2 billion, while South African exports to the United States increased 28 percent at \$7.5 billion. In 2006, South Africa was the 37th largest trading partner of the United States, equivalent to Turkey or Chile. It is the largest U.S. export market in sub-Saharan Africa, twice the size of Nigeria and equal to Russia or Argentina. South Africa was the third largest beneficiary of AGOA in 2006, and the largest beneficiary of non-oil products. Its AGOA exports totaled 21 percent of the country's total exports in 2006. An impressive 99.6 percent of South Africa's exports entered the U.S. with zero import duties in 2005 as a result of normal trading relations (NTR), GSP and AGOA benefits. Only 0.4 percent of the value of South Africa's exports to the U.S. was subject to duty, or \$26 million out of \$5.9 billion in exports in 2005. Over 600 U.S. firms have a presence in South Africa with 85 percent using the country as a regional

or continental center. South Africa's stable government, sound fiscal and monetary policy management and, by African standards, its large market are the primary attractions for U.S. businesses. South Africa has, however, failed to attract a proportionate share of foreign direct investment since 1994. Reasons include: slow growth, high unit labor costs, crime, regulatory uncertainty and the impact of Black Economic Empowerment policies, labor regulations, HIV/AIDS, and the slow process of privatization. The U.S. was the largest portfolio investor and the second largest foreign direct investor in South Africa (\$5.1 billion at year-end 2005).

¶17. (SBU) Following six rounds of negotiations over three years, the U.S. and the Southern African Customs Union (SACU: South Africa, Botswana, Lesotho, Namibia, and Swaziland) agreed in April that they could not conclude negotiations on a free trade agreement (FTA) by their target date of December ¶2006. Negotiators subsequently agreed to deepen the bilateral relationship through a Cooperative Agreement on Trade, Investment and Development (TIDCA). Negotiations are currently underway for the signing of a framework agreement for the TIDCA.

HIV/AIDS: A CRISIS OF EPIC PROPORTIONS

¶18. (U) In South Africa, the prevalence rate of HIV infections is one of the highest in the world. HIV/AIDS is the country's leading cause of death. South Africa has a generalized, mature HIV epidemic and HIV-related care and treatment services are required across the population. An estimated 5.5 million South Africans are HIV-positive, including 2.9 million women and approximately 300,000 children aged 14 or less. An estimated 18.8 percent of the adults between 15 and 49 are infected. Women in the age group 25-29 are the most badly affected, with prevalence rates of up to 40 percent. In 2005, an estimated 800,000 more citizens became infected and in 2006, 346,000 adults and children died from AIDS. An estimated 3.5 million children, or 18.6 percent of South Africa's children, have had at least one parent die. Sixty-six percent of these children had been orphaned as a result of AIDS. The number of AIDS-related deaths since the start of the epidemic is estimated at 1.8 million, with 71 percent of all deaths in the 15-41 year old age group being due to AIDS. Continued AIDS-related mortality will create millions of new orphans and generate additional social and economic disruption, including orphans being raised by extended family members or in child-headed households.

¶19. (U) In April 2007, the South African Government released its National Strategic Plan for HIV, AIDS, & Sexually Transmitted Infections (STIs) for 2007-2011 (NSP). The NSP has the goal of reducing new HIV infections by 50 percent by 2011 and also aims to boost provision of anti-retroviral treatment (ART) in South Africa. However, South African public health facilities suffer from an acute shortage of skilled personnel and laboratory and clinical infrastructure.

Considerable investment in human resources and infrastructure is necessary to meet the NSP's national anti-retroviral treatment targets. Approximately 230,000 people were receiving anti-retroviral (ARV) treatment as of 2006, while a further 540,000 people needed, but were not receiving, treatment. The Global Fund has provided major grants to the Western Cape Health Department and a

PRETORIA 00003903 005 OF 005

public-private consortium in KZN.

¶20. (SBU) The President's Emergency Plan for AIDS Relief (PEPFAR) is in its fourth year of implementation working with public and private sector prevention, treatment, and care programs. To date, the U.S. has provided almost \$460 million

through PEPFAR to support HIV/AIDS programs in South Africa, with an additional \$397.8 million being funded in FY 2007 and \$590 million to be funded in FY 2008, making it the largest recipient of Emergency Plan resources. The Emergency Plan directly supported 172,400 people in ARV treatment through programs in all nine provinces as of June 2007. The USG PEPFAR team in South Africa includes U.S. Agency for International Development (USAID), Centers for Disease Control (CDC), Department of State, Department of Health and Human Services (HHS), Department of Defense and Peace Corps. The team works to ensure that the PEPFAR strategic plan is aligned with the goals of the NSP. The South African military has expanded prevention programs and collaborates with the U.S. military and NIH on AIDS treatment research.

¶21. (U) South Africa has the strongest research and training capacity of any country in the region, making it an important partner in the fight against HIV/AIDS. USG agencies work with national and provincial health departments, the military, universities and NGOs to strengthen primary health care, prevention, disease surveillance and research. President Bush and President Mbeki confirmed a mutual commitment to expand HIV/AIDS collaboration, particularly through the Emergency Plan. The mission has prepared, in coordination with the government, a five-year strategic plan focused on treatment, prevention, palliative care, and the provision of care for orphans and other vulnerable children.

¶22. (U) The epidemics of HIV and tuberculosis (TB) are interlinked. In Southern Africa, between 50 and 88 percent of TB patients are HIV positive and TB is the most common infectious disease associated with HIV in sub-Saharan Africa. A high overall prevalence rate for HIV in South Africa and lack of continuity in treatment contributes to the increasing incidence of active TB disease, including multi-drug resistant (MDR) strains. In conjunction with HIV, TB is linked to substantially higher fatality rates, even in the presence of effective TB chemotherapy.

BOST